



CALIFORNIA Economic Indicators

July–August 2004

A Bump in the Road

State and National Job Growth Softens
During the Summer

REVIEW OF RECENT ECONOMIC DEVELOPMENTS

Both the national and California economies hit a “soft patch” in July. At this point, however, the mid-summer weakness appears to be a bump in the road rather than a retreat from a self-sustaining recovery. Industry employment was unexpectedly weak in July for both the nation and the state, despite strong readings from other non-labor indicators.

Employment

Surprising industry job news

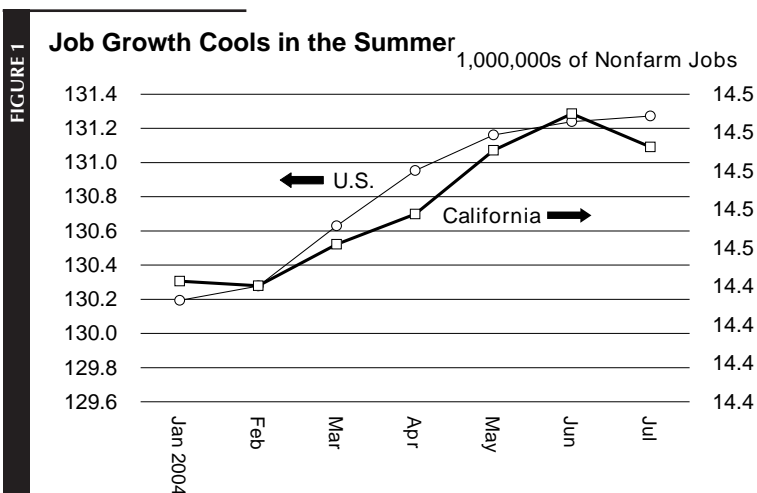
The California labor market appeared to do a ‘two-step’ this summer. A broad-based expansion of industry employment was building through June, but then changed course abruptly in July. California typically accounts for about 11 percent of the nation’s employment. After falling behind the nation for several months, the state outpaced national job growth during May and June, accounting for 16 and 25 percent of national job gains respectively. But, the nation’s growth rate was slowing. The national month-over-month job gain, which had averaged over 225,000 through May, dropped to 78,000 in June and then weakened again to an unexpected low of 32,000 in July. California followed suit in July when it lost over 17,000 jobs after averaging nearly 19,000 monthly gains during the first six months of the year. This slowdown was surprising given that other readings, such as industrial output and consumer confidence, continued to indicate a robust expansion.

The reverses were spread across nearly all industrial sectors. In June, nine out of the 11 major sectors gained jobs. In July, only four added jobs. One bright note was that Manufacturing added jobs for the fourth consecutive month.

July’s surprising employment development will most likely change in the course of the normal revision process. Thus, the year-over-year reading may be a better labor market indicator than the latest month-to-month reading. Total nonfarm employment grew by 125,800, or 0.9 percent, in July compared to the same month of 2003. This is the seventh consecutive month of year-over-year employment growth. Industry employment over the year rose by 65,400 in Professional and Business Services; 28,200 in Trade, Transportation and Utilities; 26,900 in Educational and Health Services; 25,300 in Construction; 20,900 in Leisure and Hospitality; 10,000 in Financial Activities; 800 in Manufacturing; and 400 in Natural Resources and Mining.

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Better unemployment news

In contrast to nonfarm employment estimates, household employment improved in July. The state's unemployment rate dropped to 6.1 percent—the lowest rate since November 2001—and down from 6.9 percent in July 2003. The number of unemployed persons fell by 38,500 in July. The labor force grew by 5,600, while civilian employment expanded by 44,100. The national unemployment rate was 5.5 percent in July, dropping 0.1-percentage point from June.

Building Activity

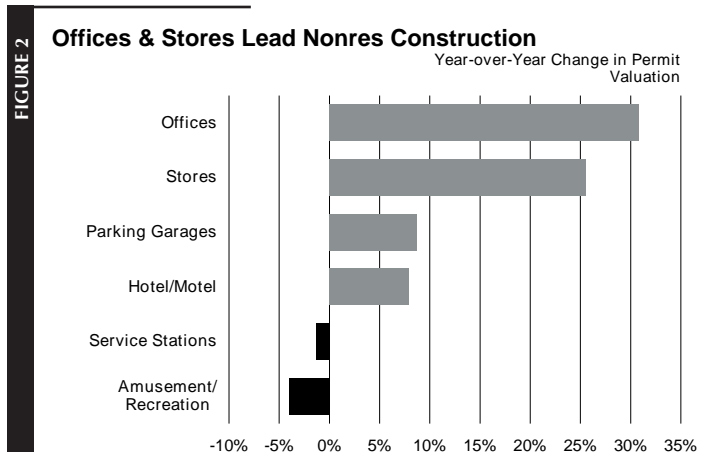
Home building is still going strong

After slowing in April and May, home building came roaring back in June, rising nearly 12 percent from May's pace. Residential construction authorized by permits totaled 220,000 units on a seasonally adjusted annual rate basis. Both single and multi-family construction made solid gains. The typically more volatile multi-family sector rose over 45 percent from May, while single-family construction grew 5.5 percent.

During the first six months of 2004, home building activity was up 3.4 percent from the same months of 2003. Strong gains in Southern California have compensated for sharp reductions in the San Francisco Bay Area. The strongest year-over-year growth thus far in 2004 has occurred in Los Angeles-Long Beach and Riverside-San Bernardino metropolitan areas, growing 18 percent and 15 percent respectively from the same months of 2003.

Strong commercial construction as well

Nonresidential building also made strong gains in June—also recovering from a May slowdown. Total nonresidential construction topped \$17.5 billion, for a 29.7-percent improvement on June 2003, as measured by the seasonally adjusted value of permits issued. This is the strongest one-month building pace since August 2001. All building categories made robust year-over-year gains in June. Strong growth in the construction of office buildings and stores accounted for the lion's share of the growth from 2003.



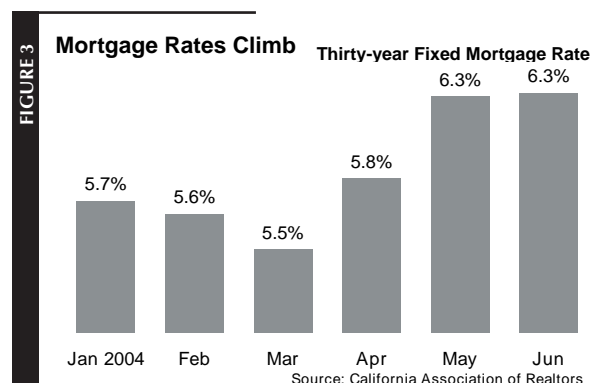
Real Estate

Rising rates prompt home sales

The prospect of higher mortgage rates continued to push tentative homebuyers to take action in June. Sales of existing single-family homes in June totaled 633,670 units on a seasonally adjusted-annual rate basis, just slightly better than May's sales pace. Overall, home sales during the first six months of 2004 are 7.4 percent better than the same months of 2003.

Home prices continued to press upward, but the rate of appreciation appears to be moderating. The median price of existing single-family homes sold in June reached \$469,170—more than 25 percent higher than the June 2003 median. On a month-to-month basis however, home price inflation has moderated dramatically and steadily since March when the median price shot up 8.5 percent. The median rose only 1.2 percent in June from the preceding month.

Southern California is experiencing the fastest home price appreciation. In the Los Angeles region, the median price of an existing, single-family detached home climbed 31.6 percent in June compared to



the same month of 2003. During the same period, the median home price in the San Francisco Bay Area rose 14.5 percent.

California's home affordability rate dropped to 19 percent in May, led by rising home prices (according to the California Association of Realtors). A year earlier, the affordability index, which measures the percentage of households that can afford to purchase a median-priced home, was 27 percent. The national rate stood at 55 percent in May 2004.

■ RECENT TRENDS IN CALIFORNIA FOREIGN TRADE

Foreign trade is a critical element of California's economy—the state is the nation's second largest producer of exported goods and the home of the nation's busiest international ports. Exports of made-in-California goods started 2004 off with a bang, surging 25 percent in the first quarter compared to the same quarter of 2003. This expansion was led by tremendous growth in computer and electronics products—a California specialty—and a sharp increase in transportation products.

Substantial Gains

The growth was driven by a number of factors. Many of California's trading partners are in the midst of economic recoveries and thus have growing appetites for imports—particularly investment goods such as computers and electronics. Mainland China has an especially fervent need fueled by near-10-percent annual real GDP growth. The U.S. recovery also plays a role in so far as it is spurring growth in some of our trading partners, such as Mexico. A weak American dollar has also improved the attractiveness, of California-made exports.

High tech dominates exports

Computer and electronics dominate California's exports—accounting for 38 percent of total value during the first quarter of 2004. High technology exports are also notably volatile and are sometimes responsible for the lion's share of export fluctuations. Approximately three-fourths of the sharp slowdown in California exports in 2001 and 2002 was caused by reduced high technology exports. In the case of the recent surge in exports, computer and electronics made up nearly a third of the gain.

California is benefiting from a generally healthy world economy. Moreover, the current outlook for the state's major trading partners is for continued improvement.

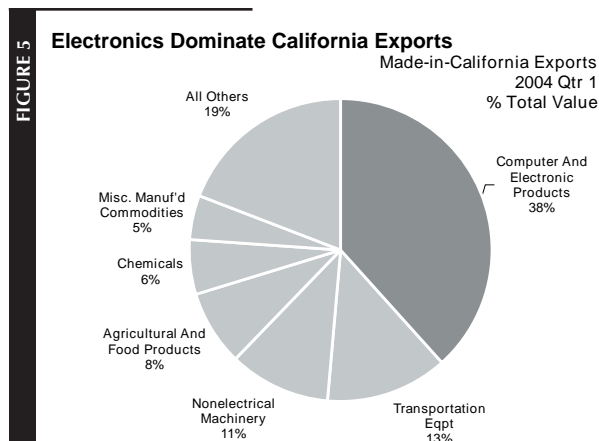
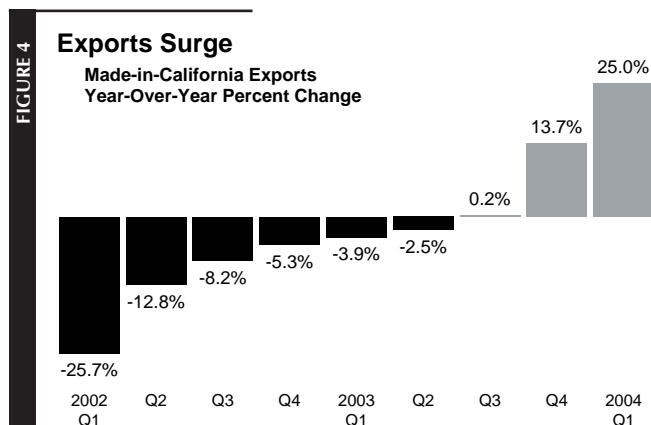
North America

Mexico and Canada receive approximately one quarter of California's exports. Both countries are in the midst of healthy economic expansions. Rising U.S. manufacturing activity has spurred the Mexican economy on. The U.S. recovery is generating rising exports from Mexico, which, in turn will lead to greater investment activity. Mexico's economy will expand by more than 3 percent in 2004 and accelerate even more in 2005.

Canada is also in the midst of an export-led recovery. After falling for several years, Canadian exports are growing handily in 2004. Domestic consumption is not growing as strongly, but is expected to pick up in 2005, which will boost overall economic growth.

Asia

Japan—California's leading Asian trading partner—may at last be emerging from its decade-long economic stagnation. Thriving international commerce has given Japan an export boom that boosted



its economy nearly three percent in 2003. Increased domestic demand and rising investment are expected to sustain this growth rate into the future. However, deflation has not yet been eradicated and continues to dampen economic prospects.

China is a rising star

Mainland China is California's most dynamic trading partner and is the world's fastest growing major economy. China now accounts for 7 percent of the state's exports. As recently as 1999, it received only 2 percent. Real GDP growth reached a seven-year high of 9.1 percent in 2003. Concerns over inflation and excessive investment prompted the government to curb lending in order to dampen this torrid growth rate. Even though the government is targeting a 7-percent pace in 2004, the year started out strong and overall growth for the year should average between 8 and 10 percent.

Europe

Even though the European economic recovery is being hampered by a strong euro, significant improvement is anticipated in the near future. Expanding world trade, improving corporate finances, and stimulative monetary policies are pulling Europe's growth rate up from the anemic pace set in 2002 and 2003. Joining these factors is the addition of 10 economies to the European Union. The new members—predominantly emerging east European countries—enjoy strong productivity growth as they privatize and modernize many state-owned enterprises. This enlargement should boost the new Union's overall productivity growth rate to rival that of the United States. Projected European GDP growth in 2004 ranges from about 1.6 percent to 2.5 percent. Estimates for the following year range from 2.4 to 3.5 percent.

Weak labor markets, however, remain a sore point. Unemployment in the 10 new countries averages about 13.5 percent. Significant improvement awaits further labor market reforms.

Clear Skies Ahead?

The prognosis for California's major trading partners is for continued or accelerating growth. This should ensure a healthy and growing appetite for California goods for the foreseeable future. Rising energy prices present a serious risk to a sustained global recovery. High crude oil prices, which recently topped \$49 per barrel, could slow economic growth by dampening demand for non-petroleum imports, stifling equity markets, and spurring inflation.

FIGURE 6

Robust Export Growth

Made-in-California Exports Top 25 Destinations*

Country	Exports (\$millions)		Percent Change
	2003Q1	2004 Q1	
1 Mexico	\$ 3,475.6	\$ 3,774.0	8.6%
2 Japan	\$ 2,700.0	\$ 3,476.1	28.7%
3 Canada	\$ 2,615.2	\$ 2,948.4	12.7%
4 China (Mainland)	\$ 1,078.5	\$ 1,842.4	70.8%
5 South Korea	\$ 1,243.3	\$ 1,448.8	16.5%
6 United Kingdom	\$ 1,063.4	\$ 1,311.4	23.3%
7 China (Taiwan)	\$ 945.1	\$ 1,302.3	37.8%
8 Netherlands	\$ 807.2	\$ 1,178.9	46.0%
9 Hong Kong	\$ 921.3	\$ 1,136.7	23.4%
10 Singapore	\$ 779.9	\$ 994.9	27.6%
11 France	\$ 497.2	\$ 943.7	89.8%
12 Germany	\$ 879.5	\$ 901.3	2.5%
13 Australia	\$ 412.9	\$ 631.2	52.9%
14 Malaysia	\$ 375.7	\$ 511.1	36.1%
15 Belgium	\$ 354.0	\$ 389.2	9.9%
16 Thailand	\$ 275.1	\$ 370.8	34.8%
17 Italy	\$ 311.9	\$ 309.0	-0.9%
18 Philippines	\$ 219.5	\$ 264.9	20.7%
19 Brazil	\$ 165.2	\$ 250.9	51.8%
20 Ireland	\$ 222.3	\$ 219.0	-1.5%
21 Hungary	\$ 18.1	\$ 204.2	1026.2%
22 India	\$ 212.0	\$ 203.5	-4.0%
23 Spain	\$ 153.2	\$ 189.3	23.5%
24 Israel	\$ 195.7	\$ 176.1	-10.0%
25 Switzerland	\$ 154.1	\$ 163.4	6.0%
Rest of the World	\$ 1,569.7	\$ 1,920.6	22.4%
California Exports	\$ 21,645.3	\$ 27,062.1	25.0%

* Based on 2004Q1 exports.

Source: Massachusetts Institute for Social and Economic Research

FIGURE 7

Positive Outlook for Trading Partners

	Real GDP Year-Year Percent Change		
	2003	2004 ^P	2005 ^P
Mexico	1.3	3.5	4.2
Canada	1.7	2.8	3.3
Japan	2.7	3.0	2.8
South Korea	3.1	5.6	5.9
Mainland China	9.1	8.3	7.8
United Kingdom	2.2	3.1	2.7
Euro Area	0.5	1.6	2.4

^P Projection

Source: Organization for Economic Co-operation and Development

Select Indicators

	2003	2004				Year-Over
	Jul	Apr	May	Jun	Jul	% Change
EMPLOYMENT (Seasonally adjusted)						
Civilian employment (000)	16,277	16,475	16,514	16,541	16,585	1.9%
Unemployment (000)	1,197	1,098	1,105	1,118	1,079	-9.9%
Unemployment rate	6.9	6.2	6.3	6.3	6.1	--
Nonagricultural wage and salary employment (000) a/	14,386.8	14,477.6	14,510.8	14,529.9	14,512.6	0.9%
Goods-producing industries	2,342.9	2,361.4	2,365.7	2,370.1	2,369.4	1.1%
Natural resources and mining	22.0	22.3	22.2	22.3	22.4	1.8%
Construction	788.6	811.6	814.4	817.3	813.9	3.2%
Manufacturing	1,532.3	1,527.5	1,529.1	1,530.5	1,533.1	0.1%
Service-providing industries	12,043.9	12,116.2	12,145.1	12,159.8	12,143.2	0.8%
Trade, transportation, and utilities	2,718.0	2,743.1	2,748.1	2,752.5	2,746.2	1.0%
Information	461.6	459.0	468.4	464.0	453.7	-1.7%
Financial activities	891.5	898.5	900.1	902.8	901.5	1.1%
Professional and business services	2,100.5	2,153.7	2,164.4	2,161.5	2,165.9	3.1%
Educational and health services	1,536.1	1,560.6	1,562.5	1,563.7	1,563.0	1.8%
Leisure and hospitality	1,396.1	1,408.7	1,411.8	1,417.4	1,417.0	1.5%
Other services	504.9	502.1	505.6	506.3	503.4	-0.3%
Government	2,435.2	2,390.5	2,384.2	2,391.6	2,392.5	-1.8%
High-technology industries b/	866.7	858.5	860.7	862.7	862.6	-0.5%
Computer and electronic products manufacturing	322.6	319.9	320.2	321.0	321.1	-0.5%
Aerospace products and parts manufacturing	72.2	73.5	73.8	74.2	74.6	3.3%
Software publishers	44.3	42.7	42.7	42.8	43.0	-2.9%
Telecommunications	119.7	114.8	114.6	114.5	114.3	-4.5%
Internet service providers	47.8	48.2	48.6	48.8	48.5	1.5%
Computer systems design	165.2	163.0	163.7	163.4	162.8	-1.5%
Scientific research and development	94.9	96.4	97.1	98.0	98.3	3.6%
HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	39.2	39.7	40.3	40.0	39.9	1.8%
Average weekly earnings	\$591.92	\$608.20	\$618.61	\$614.80	\$613.66	3.7%
Average hourly earnings	\$15.10	\$15.32	\$15.35	\$15.37	\$15.38	1.9%
CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)						
All Urban Consumers Series						
California Average	n.a.	194.4	n.a.	195.8	n.a.	--
San Francisco CMSA	n.a.	198.3	n.a.	199.0	n.a.	--
Los Angeles CMSA	186.3	191.9	193.3	193.7	193.4	3.8%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	187.9	n.a.	189.6	n.a.	--
San Francisco CMSA	n.a.	194.7	n.a.	195.4	n.a.	--
Los Angeles CMSA	179.6	185.2	186.8	187.4	186.8	4.0%
CONSTRUCTION						
Private residential housing units authorized (000) c/						
Single units	137	152	145	152	139	1.3%
Multiple units	63	50	55	68	56	-11.9%
Residential building authorized valuation (millions) d/	\$39,023	\$42,732	\$42,091	\$46,992	\$42,217	8.2%
Nonresidential building authorized valuation (millions) d/	\$16,410	\$16,679	\$14,146	\$17,134	\$16,167	-1.5%
Nonresidential building authorized valuation (millions) e/						
Commercial	392	475	395	579	399	2.0%
Industrial	105	156	130	180	93	-11.6%
Other	277	271	277	326	268	-3.3%
Alterations and additions	513	563	499	541	510	-0.6%
AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	134,294	154,715	137,666	148,741	n.a.	--

a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).

b/ Not seasonally adjusted

c/ Seasonally adjusted at annual rate

d/ Seasonally adjusted

e/ Not seasonally adjusted

n.a. Not available

Select Indicators *Continued*

VACANCY RATES FOR SECOND QUARTER 2004

(Percent)

	Office Downtown		Office Suburban		Office Total		Industrial	
	2Q04	2Q03	2Q04	2Q03	2Q04	2Q03	2Q04	2Q03
Northern and Central California:								
Oakland	17.3	18.2	17.0	16.8	17.0	17.1	n.a.	n.a.
Sacramento	13.5	9.5	13.4	11.7	13.4	11.2	14.9	15.5
San Francisco	17.7	19.3	22.7	26.5	19.2	21.5	12.9	13.4
San Jose	17.8	20.8	18.3	22.2	18.1	21.9	n.a.	n.a.
Southern California:								
Los Angeles Metro	15.8	19.1	14.3	14.0	14.5	14.8	8.4	9.1
Orange County	n.a.	n.a.	12.3	15.3	12.3	15.3	n.a.	n.a.
San Diego	9.3	11.8	10.9	12.0	10.6	12.0	12.4	10.3
Ventura County	n.a.	n.a.	11.0	10.4	11.0	10.4	n.a.	n.a.
National Average	14.5	14.4	17.9	17.9	16.6	16.6	11.2	11.6

FOREIGN TRADE THROUGH CALIFORNIA PORTS

SALES OF EXISTING SINGLE-FAMILY HOMES

DOD PRIME CONTRACTS ^{a/}

		Median Price	Units (SAAR)	Exports (\$ millions)	Imports (\$ millions)		\$ millions	% of U.S.
2001	Jan	\$244,110	502,800	\$12,284	\$19,173	1981-82	\$22,685	21.8%
	Feb	241,690	486,370	11,595	16,201	1982-83	26,387	22.2%
	Mar	257,550	518,410	12,390	19,475	1983-84	28,520	23.0%
	Apr	255,310	495,390	10,492	17,624	1984-85	29,115	20.8%
	May	255,860	505,590	10,948	16,885	1985-86	27,738	20.4%
	Jun	266,930	526,570	10,721	18,274	1986-87	24,515	18.4%
	Jul	267,520	503,030	9,890	18,206	1987-88	23,458	18.7%
	Aug	282,420	571,070	10,288	18,277	1988-89	23,125	19.3%
	Sep	275,620	475,380	9,634	17,585	1989-90	22,312	18.4%
	Oct	263,020	494,920	10,038	19,532	1990-91	24,265	19.5%
	Nov	270,210	493,870	9,315	17,184	1991-92	23,843	21.2%
	Dec	281,330	474,490	9,659	15,525	1992-93	22,952	20.1%
2002	Jan	\$287,080	584,250	\$8,688	\$15,517	1993-94	22,573	20.5%
	Feb	294,870	610,380	8,429	15,768	1994-95	18,277	16.8%
	Mar	305,840	586,230	9,945	16,318	1995-96	18,230	16.7%
	Apr	317,120	643,030	9,274	17,807	1996-97	18,477	17.3%
	May	319,590	620,300	9,814	17,568	1997-98	17,401	15.9%
	Jun	324,640	533,840	9,984	18,988	1998-99	17,372	15.1%
	Jul	321,900	540,800	9,335	18,998	1999-00	18,100	14.7%
	Aug	334,270	562,780	9,948	19,686	2000-01	19,939	14.7%
	Sep	322,450	493,800	9,286	19,478	2001-02	23,816	15.0%
	Oct	324,670	579,240	8,794	18,753	2002-03	28,681	15.0%
	Nov	328,440	542,120	9,046	20,522			
	Dec	338,840	573,790	8,797	19,060			
2003	Jan	\$336,210	584,600	\$8,408	\$17,588			
	Feb	326,640	566,890	8,423	16,359			
	Mar	352,780	567,610	9,784	18,789			
	Apr	364,040	583,330	9,158	19,151			
	May	367,630	572,260	9,090	18,537			
	Jun	374,540	572,130	9,743	19,774			
	Jul	381,940	595,860	9,604	20,743			
	Aug	400,020	645,720	9,626	19,846			
	Sep	380,040	631,880	8,968	21,060			
	Oct	380,350	636,690	10,341	23,021			
	Nov	384,930	627,190	9,969	21,320			
	Dec	403,570	637,080	10,437	20,528			
2004	Jan	\$406,220	615,660	\$9,062	\$19,996			
	Feb	395,060	589,220	9,536	18,011			
	Mar	428,570	590,220	11,420	22,589			
	Apr	453,590	640,710	10,249	21,722			
	May	463,690	632,380	10,460	21,760			
	Jun	468,620	633,670	10,481	23,971			
	Jul	463,540	639,910	n.a.	n.a.			

a/ U.S. fiscal year: October through September

n.a. Not available

Leading Indicators/^a

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
2001	Jan	4.1	39.9	47,065	7,474	200.7
	Feb	4.2	40.2	51,343	6,465	136.3
	Mar	4.0	39.9	53,726	6,562	144.5
	Apr	3.5	39.5	53,017	6,217	153.3
	May	3.8	39.7	56,205	6,714	152.5
	Jun	3.8	39.3	55,053	6,429	147.6
	Jul	3.8	39.5	55,764	6,494	130.3
	Aug	3.9	39.6	57,542	7,309	160.8
	Sep	3.9	39.5	59,829	6,149	114.7
	Oct	3.7	39.3	64,090	6,933	139.7
	Nov	3.6	39.0	57,914	7,216	142.1
	Dec	3.7	39.3	47,557	6,922	163.6
2002	Jan	3.8	39.0	66,867	7,175	155.4
	Feb	4.0	39.5	55,653	6,932	162.1
	Mar	4.1	40.0	60,564	7,369	144.4
	Apr	4.1	40.0	64,132	7,305	163.0
	May	4.1	39.7	60,539	8,520	157.1
	Jun	4.1	39.9	59,679	7,012	149.7
	Jul	4.0	39.3	63,104	7,174	181.5
	Aug	4.0	39.8	61,589	7,645	166.9
	Sep	3.9	39.8	61,305	7,726	184.9
	Oct	3.7	39.5	63,105	7,929	203.3
	Nov	3.9	39.6	58,190	7,370	191.1
	Dec	3.9	39.7	58,106	7,778	151.9
2003	Jan	3.9	39.7	60,938	7,275	193.0
	Feb	4.0	39.9	58,324	8,809	249.9
	Mar	3.7	39.8	58,847	7,228	183.2
	Apr	3.7	39.8	65,902	7,840	188.9
	May	3.8	39.9	60,158	7,772	210.3
	Jun	3.7	39.9	61,883	7,939	177.6
	Jul	3.9	39.5	61,862	7,913	200.0
	Aug	3.8	39.5	58,148	7,108	178.6
	Sep	3.9	39.4	58,124	8,865	194.7
	Oct	3.7	39.5	60,267	7,802	210.2
	Nov	4.1	40.1	53,659	7,275	188.9
	Dec	3.9	39.4	50,224	8,477	194.9
2004	Jan	4.0	40.1	50,745	7,905	196.7
	Feb	4.2	40.3	49,833	8,869	206.6
	Mar	4.2	40.3	48,368	8,550	226.0
	Apr	4.5	40.1	51,481	8,381	201.7
	May	4.6	40.5	45,693	8,180	199.8
	Jun	4.2	39.9	50,863	9,003	220.2
	Jul	4.5	40.2	49,736	8,244	194.2

a/ Seasonally adjusted by the California Department of Finance.

Coincident Indicators/^a

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2001	Jan	14,715	1,875	4.6	354
	Feb	14,720	1,866	4.7	356
	Mar	14,728	1,855	4.8	364
	Apr	14,666	1,831	4.9	386
	May	14,650	1,812	5.1	413
	Jun	14,641	1,797	5.2	421
	Jul	14,574	1,778	5.3	445
	Aug	14,582	1,761	5.6	471
	Sep	14,525	1,740	5.7	478
	Oct	14,512	1,723	6.0	524
	Nov	14,476	1,704	6.2	512
	Dec	14,449	1,689	6.3	520
2002	Jan	14,433	1,675	6.5	511
	Feb	14,451	1,667	6.6	538
	Mar	14,463	1,662	6.7	527
	Apr	14,466	1,656	6.7	541
	May	14,491	1,652	6.6	553
	Jun	14,470	1,645	6.7	542
	Jul	14,455	1,637	6.7	549
	Aug	14,475	1,629	6.7	530
	Sep	14,462	1,622	6.7	541
	Oct	14,479	1,615	6.7	541
	Nov	14,488	1,605	6.8	509
	Dec	14,462	1,594	6.8	517
2003	Jan	14,430	1,586	6.8	509
	Feb	14,418	1,575	6.8	514
	Mar	14,390	1,564	6.8	511
	Apr	14,399	1,559	6.8	571
	May	14,391	1,550	6.8	540
	Jun	14,389	1,541	6.8	552
	Jul	14,387	1,532	6.9	555
	Aug	14,411	1,528	6.8	535
	Sep	14,408	1,525	6.7	539
	Oct	14,450	1,530	6.7	520
	Nov	14,437	1,529	6.6	509
	Dec	14,417	1,528	6.5	510
2004	Jan	14,443	1,526	6.2	446
	Feb	14,440	1,527	6.3	445
	Mar	14,462	1,526	6.6	434
	Apr	14,478	1,528	6.2	442
	May	14,511	1,529	6.3	413
	Jun	14,530	1,531	6.3	452
	Jul	14,513	1,533	6.1	406

		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales (\$ millions)
2001	Qtr I	\$1,154,610	\$661,164	\$111,989
	Qtr II	1,140,671	650,103	111,275
	Qtr III	1,126,813	637,092	108,517
	Qtr IV	1,121,298	632,386	109,442
2002	Qtr I	\$1,138,923	\$637,183	\$108,528
	Qtr II	1,153,842	640,756	109,986
	Qtr III	1,159,050	641,676	111,384
	Qtr IV	1,166,924	647,142	110,449
2003	Qtr I	\$1,176,099	\$649,812	\$112,286
	Qtr II	1,189,601	657,019	113,415
	Qtr III	1,204,715	666,122	114,874
	Qtr IV	1,227,617	679,553	113,181
2004	Qtr I	\$1,234,113	\$684,046	\$119,072

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.

■ ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

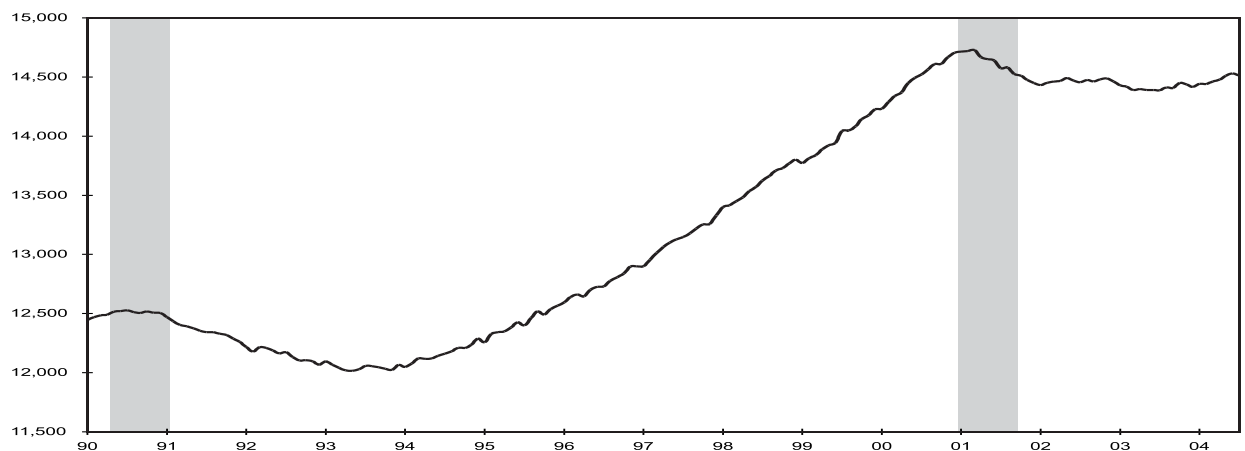
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

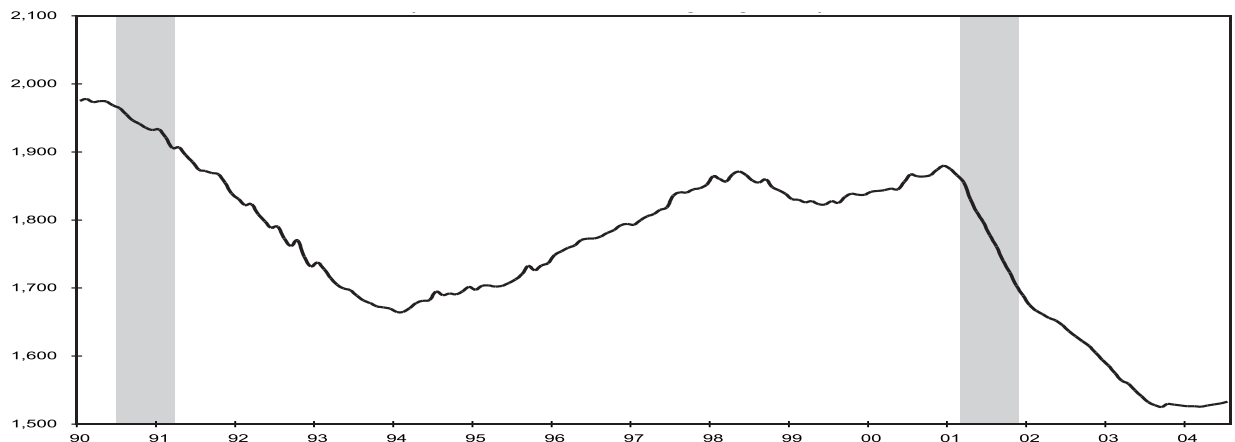
This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

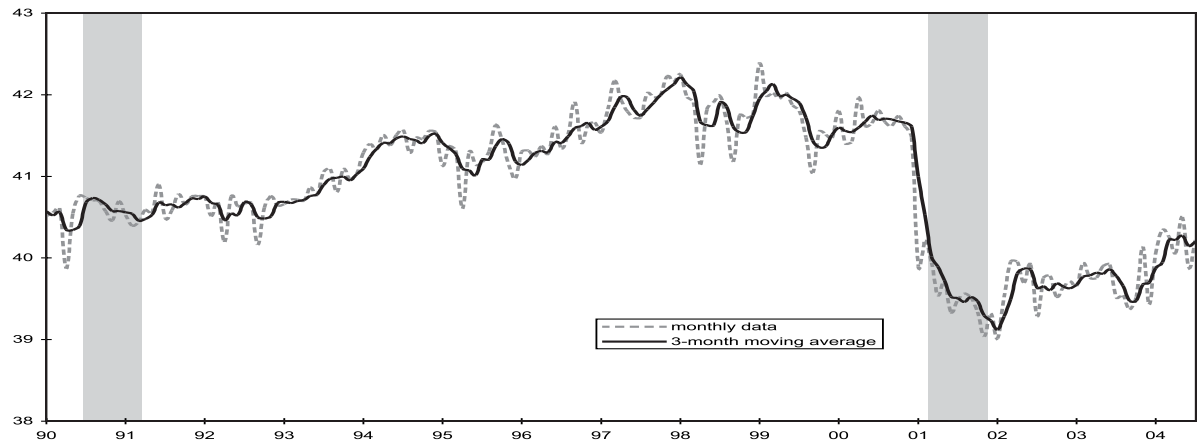
**Nonagricultural
Employment**
(thousands,
Seasonally Adjusted)



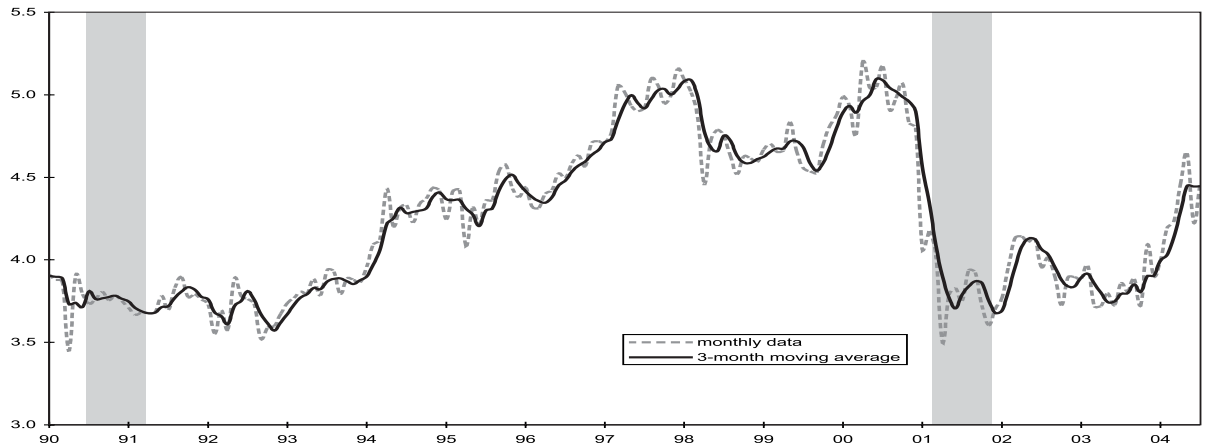
**Manufacturing
Employment**
(thousands,
Seasonally Adjusted)



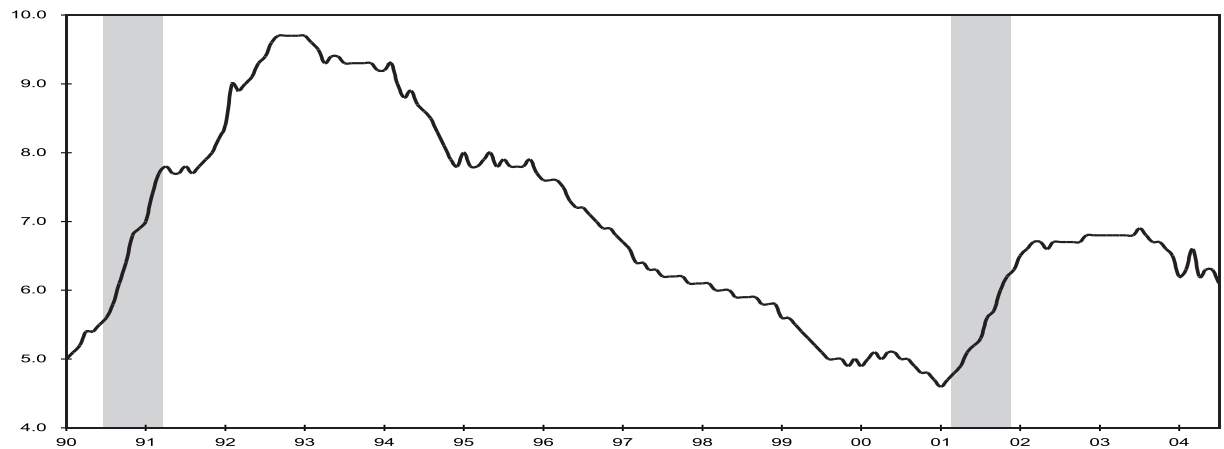
Average
Weekly Hours,
Manufacturing
(Seasonally Adjusted)



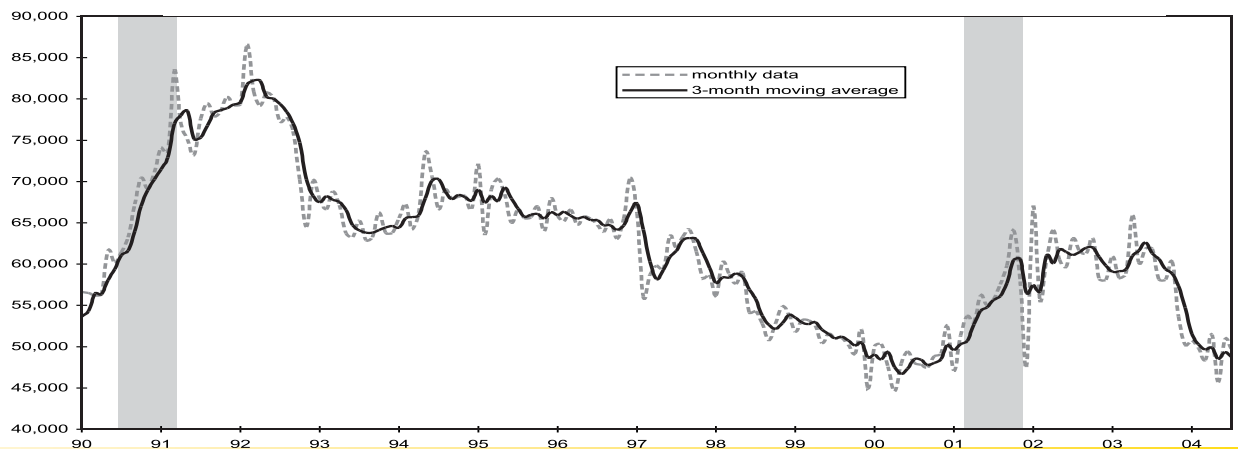
Average
Overtime Hours,
Manufacturing
(Seasonally Adjusted)



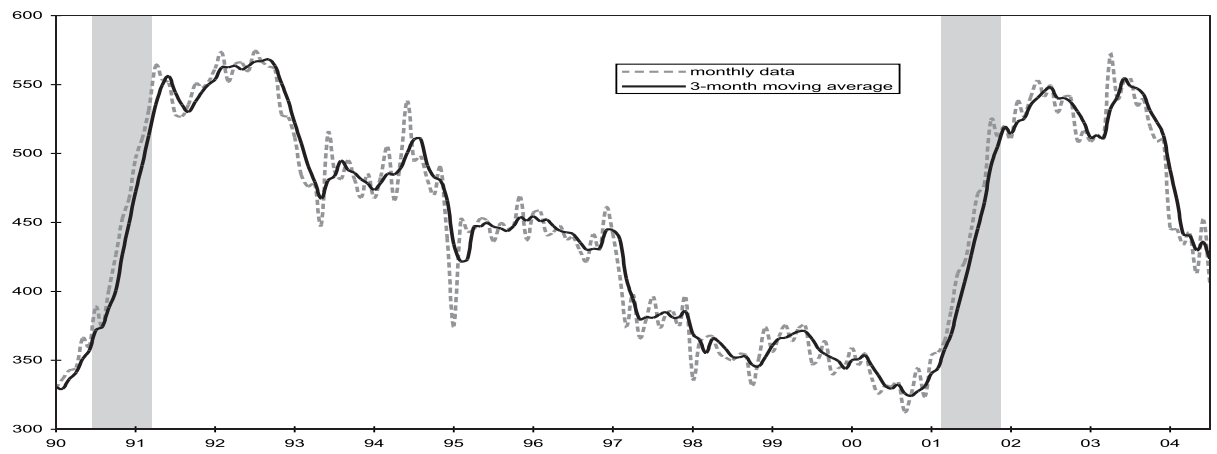
Unemployment
Rate
(Percent)



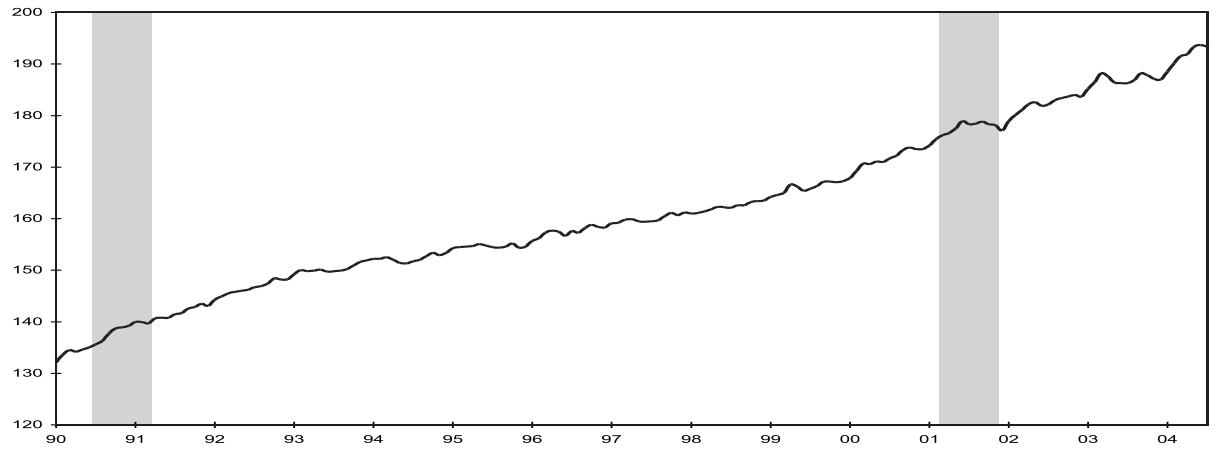
Initial &
Transitional
Claims for
Unemployment
Insurance
(Weekly Average,
Seasonally Adjusted)



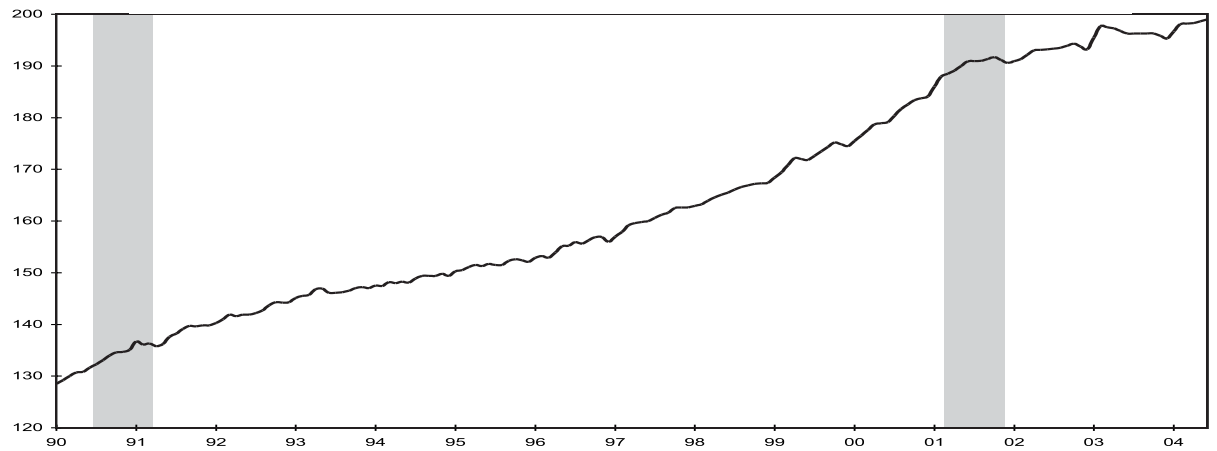
Unemployment,
Average Weeks
Claimed
(thousands,
Seasonally Adjusted)



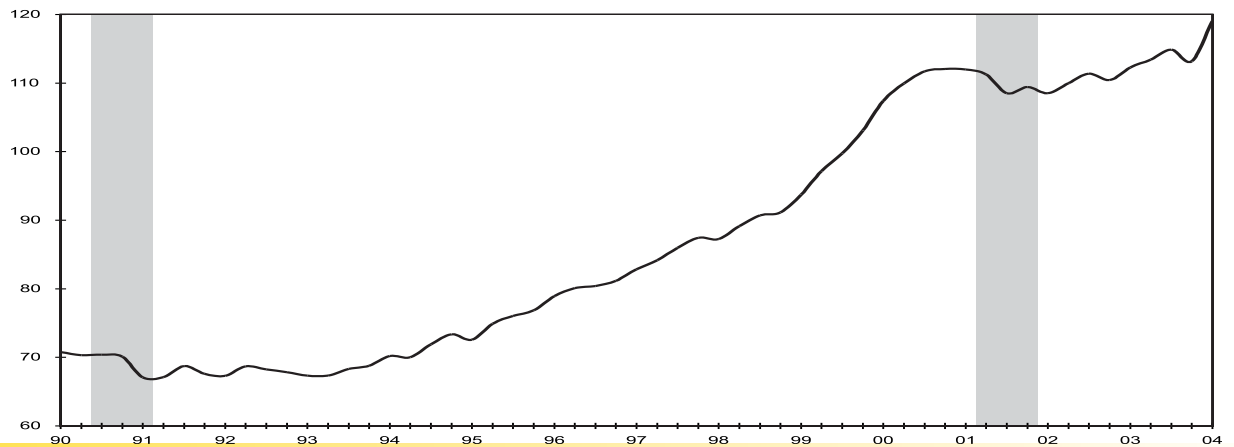
Consumer
Price Index,
Los Angeles
(1982-84=100)



Consumer
Price Index,
San Francisco
(1982-84=100)

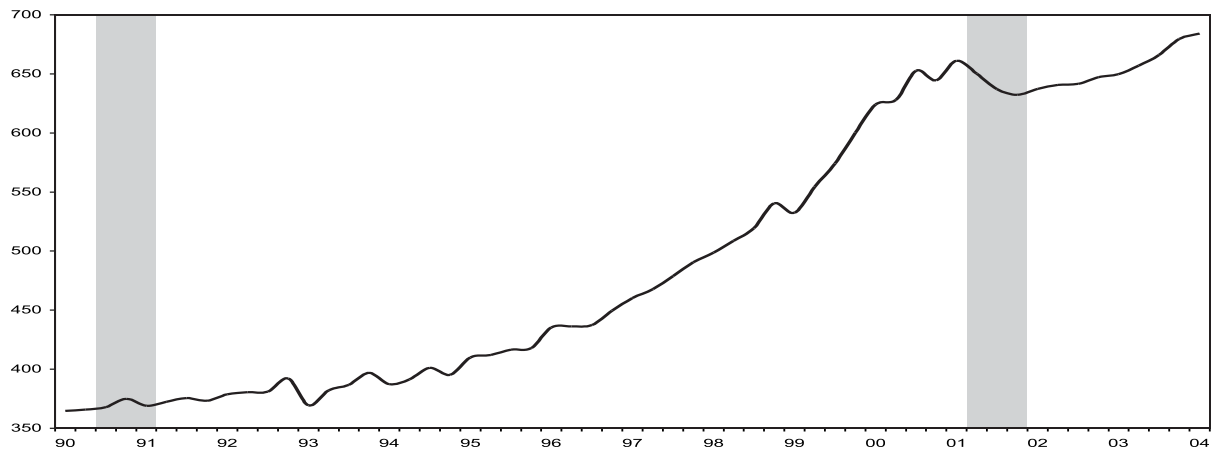


Taxable Sales
(Dollars in billions,
Seasonally Adjusted)



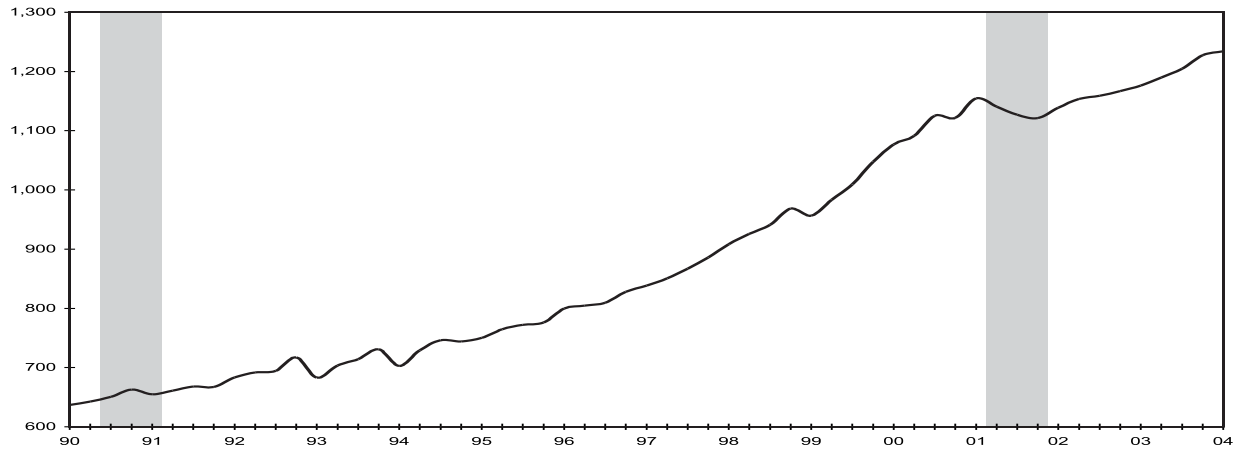
Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



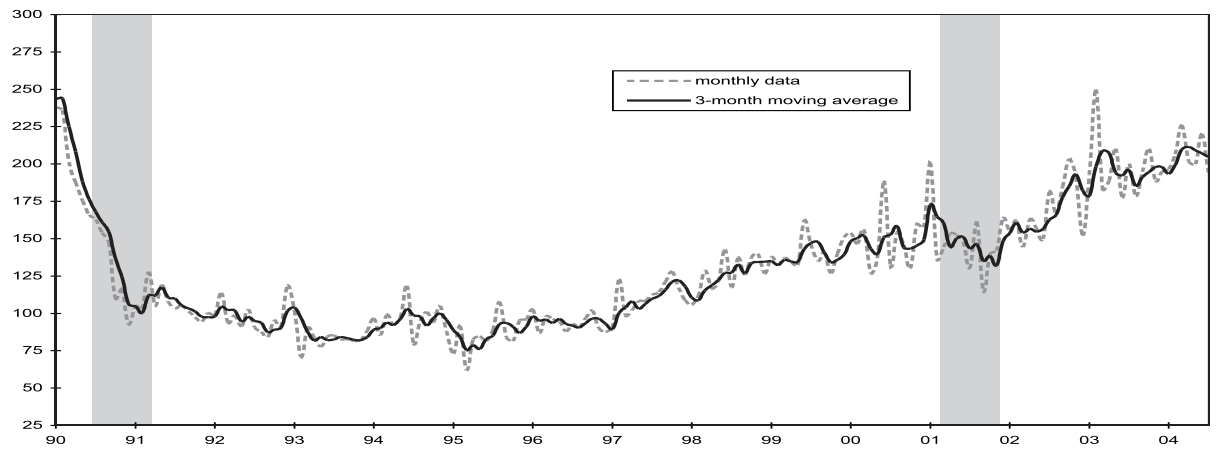
Personal Income

(Dollars in billions, Seasonally Adjusted)



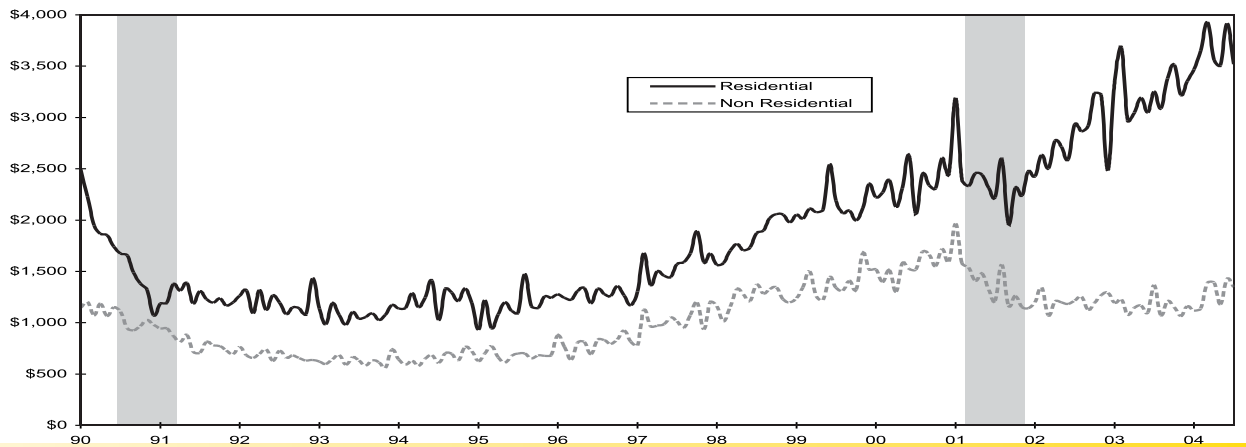
New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)



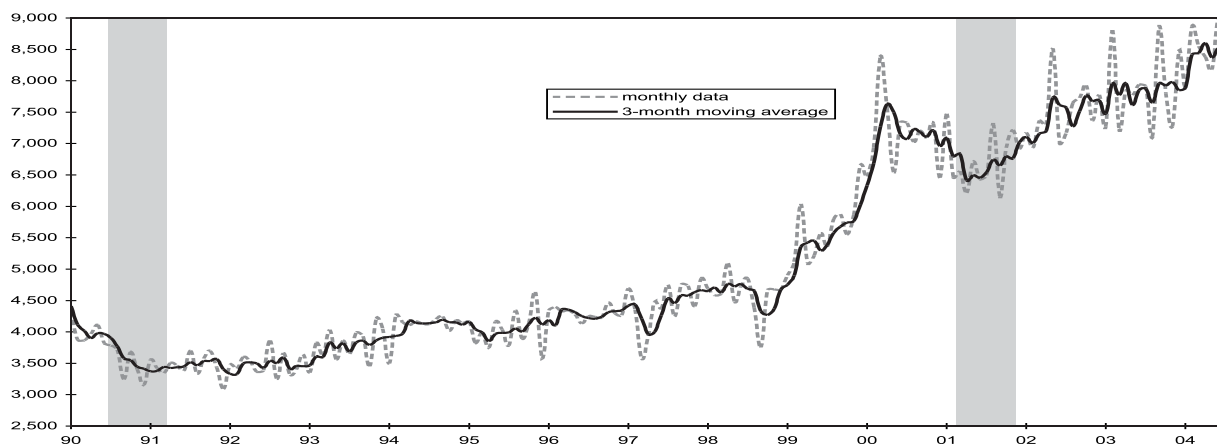
Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



New Business Incorporations

(Seasonally Adjusted)



BUSINESS CYCLES

REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-2001

Initial Trough		Peak		Terminal Trough		Expansion (months)	Contraction (months)	Total (months)
Dec.	1854	June	1857	Dec.	1858	30	18	48
Dec.	1858	Oct.	1860	June	1861	22	8	30
June	1861	April	1865	Dec.	1867	46	32	78
Dec.	1867	June	1869	Dec.	1870	18	18	36
Dec.	1870	Oct.	1873	March	1879	34	65	99
March	1879	March	1882	May	1885	36	38	74
May	1885	March	1887	April	1888	22	13	35
April	1888	July	1890	May	1891	27	10	37
May	1891	Jan.	1893	June	1894	20	17	37
June	1894	Dec.	1895	June	1897	18	18	36
June	1897	June	1899	Dec.	1900	24	18	42
Dec.	1900	Sept.	1902	Aug.	1904	21	23	44
Aug.	1904	May	1907	June	1908	33	13	46
June	1908	Jan.	1910	Jan.	1912	19	24	43
Jan.	1912	Jan.	1913	Dec.	1914	12	23	35
Dec.	1914	Aug.	1918	March	1919	44	7	51
March	1919	Jan.	1920	July	1921	10	18	28
July	1921	May	1923	July	1924	22	14	36
July	1924	Oct.	1926	Nov.	1927	27	13	40
Nov.	1927	Aug.	1929	March	1933	21	43	64
March	1933	May	1937	June	1938	50	13	63
June	1938	Feb.	1945	Oct.	1945	80	8	88
Oct.	1945	Nov.	1948	Oct.	1949	37	11	48
Oct.	1949	July	1953	May	1954	45	10	55
May	1954	Aug.	1957	April	1958	39	8	47
April	1958	April	1960	Feb.	1961	24	10	34
Feb.	1961	Dec.	1969	Nov.	1970	106	11	117
Nov.	1970	Nov.	1973	March	1975	36	16	52
March	1975	Jan.	1980	July	1980	58	6	64
July	1980	July	1981	Nov.	1982	12	16	28
Nov.	1982	July	1990	March	1991	92	8	100
March	1991	March	2001	Nov.	2001	120	8	128

■ CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of events dating back to 1956 is available at the Department's internet home page at: www.dof.ca.gov

2002

January 1	Taiwan becomes WTO member. OPEC to cut oil production by 6.5 percent. Euro becomes legal tender in 12 European countries.
January 6	Unemployment insurance benefits increased in California.
February 28	GDP up 1.4 percent in Q4.
March 9	California's "Job Creation and Worker Assistance Act of 2002" was signed into law that provides for temporary extended unemployment compensation.
March 28	GDP up 1.7 percent in Q4.
April 25	Security and Exchange Commission launched a formal investigation of Wall Street analysts' conflicts of interest.
May 13	President Bush signed a 10-year, \$190 billion farm bill that promises to expand subsidies to growers.
June 27	GDP up 6.1 percent in Q1.
July 5	Foreign direct investment flows to developed countries declined by 56% in 2001, with the United States seeing the largest fall off to its lowest level since 1997.
July 8	Intel launches its Itanium 2 chip.
July 10	President Bush called for stiffer penalties to eradicate corporate fraud.
July 15	Pfizer to buy Pharmacia.
July 16	The dollar sank against the euro for the first time in more than two years. Intel to eliminate 4,000 jobs.
July 21	WorldCom filed for bankruptcy protection.
July 22	The Dow Jones industrial average sank to its lowest level in nearly four years. Both the Nasdaq and S&P 500 are at their lowest levels since the first half of 1997.
July 30	President Bush signed into law the Public Company Accounting Reform and Investor Protection Act.
July 31	GDP growth slowed to 1.1 percent in Q2 from revised 5.0 percent in Q1. Last year's data was also revised indicating that the economy shrank in each of the first three quarters. Venture capital investments hit four-year low.
August 8	IMF signed an emergency loan to Brazil.
August 11	U.S. Airways filed for bankruptcy.
August 20	The U.S. trade deficit narrowed in June, following two straight record monthly deficits.
September 27 –October 9	Cargo operations at 29 West Coast ports ground to a halt when terminal operators locked out unionized workers.
November 6	Federal funds rate reduced from 1.75 percent to 1.25 percent. Discount rate reduced from 1.25 percent to 0.75 percent.

December 9 United Airlines filed for bankruptcy protection.
December 19 Standard & Poor's lowered California's bond rating to an A from an A+.

2003

February 10 Moody's lowered California's bond rating to A2 from A1.
February 14–17 A major snowstorm hit the Middle Atlantic and Eastern states.
February 26 Doctors in Hong Kong report the first case of a flu-type virus "Atypical Pneumonia" now more commonly known as Severe Acute Respiratory Syndrome (SARS).
March 20 Operation Iraqi Freedom begins.
April 9 Baghdad falls and Iraqis and American troops topple statue of Saddam Hussein.
April 14 President Bush declares conclusion of major combat operations in Iraq.
June 25 Federal funds rate reduced from 1.25 percent to 1 percent, the lowest rate in 45 years.
June 26 GDP up 1.4 percent in Q1.
July 17 The US recession ended in November 2001, according to NBER.
July 24 S&P lowered California's bond rating from "A" to "BBB".
July 25 United States Treasury begins mailing \$400 per child tax rebate checks.
August 2 Governor Gray Davis signs the 2003-04 state budget bill.
August 4 Moody's lowered California's bond rating from A2 to A3.
August 28 GDP grew at a revised 3.1 percent annual rate in the 2nd quarter.
September 3 Light vehicle sales in the U.S. reach 19.0 million in August, the second best monthly rate ever.
October 21 Wildfires breakout in Southern California, eventually burning 743,000 acres and destroying over 3,500 homes.
October 30 GDP grew by 7.2 percent, its fastest rate since 1984.
December 4 President Bush ends steel tariffs.
December 12 Dow Jones Industrial average closed above 10,000 for the first time since May 24, 2002.
December 13 Saddam Hussein captured by American troops.
December 23 Final report shows GDP grew by 8.2 percent in the third quarter, its fastest rate since 1984.
December 24 U.S. confirms first case of "mad cow" disease.

2004

February 10 Unexpected cut in OPEC quota and cold weather contribute to higher oil prices.
February 11 Dow Jones Industrials closed at highest level in more than 2½ years.
March 25 Fourth quarter GDP rose 4.1 percent.
April 30 International oil prices hit a 3½ year high.
May 21 Moody's raised California's credit rating from "Baa1" to "A3".
May 27 First quarter GDP grew at a 4.4 percent annual rate.
August 9 Fitch removes California from Rating Watch Negative.
August 24 S&P raised California's credit rating from "BBB" to "A".
August 27 Second quarter GDP grew at a 2.8 percent annual rate.

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